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SIPDIS

TREASURY FOR INTERNATIONAL AFFAIRS - CPLANTIER
NSC FOR MERKEL AND MCKIBBEN

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SUBJECT: ECONOMY MINISTER: TURKEY TO LAUNCH INVESTMENT
PROMOTION AGENCY

Classified By: Charge Nancy McEldowney for reasons 1.4(b) and (d).

1. (C) Summary: Minister Babacan says the GOT will create a foreign investment promotion office reporting to the Prime Minister and Babacan makes the case that foreign direct investors can now have confidence in the GOT's three-year track record of political stability and economic stabilization. By next year, he said Turkey would meet the Maastricht criteria for debt/GDP and budget deficit to GDP. Babacan contrasted Turkey's relatively low levels of extreme poverty with higher levels in Latin America. End Summary.

New Investment Promotion Agency

2. (C) Babacan told the Charge November 18 that the long-dormant proposal for an investment promotion agency has been revived and the GOT is in the final stages of drafting a law to create it. He said the new agency, which would focus on attracting foreign corporate investors, would report to the Prime Minister. (In the past, we understand Babacan had insisted that this agency--the creation of which had long ago been pushed by an investment advisory group and by the World Bank--report through him.) Babacan claimed that the investment office at Treasury was already, in effect a "one-stop shop" for foreign and domestic investors, but that the new office would hone in on large foreign corporations.

Attracting FDI: It's all about Confidence

3. (SBU) When asked how Turkey will attract a level of FDI appropriate to its size and potential, Babacan said investors will come if they have confidence in political and economic stability. Pointing to the improving macroeconomic fundamentals, Babacan said the GOT now had a track record that would appeal to investors. He said he had asked IMF Deputy Managing Director Anne Krueger whether she had ever seen a Turkish government maintain this level of fiscal austerity for three years. He said Turkey will be growing faster than any EU country and is now an accession country. If investors wait much longer they will miss out on "first mover" opportunities.

Training to Improve Judiciary

4. (C) Regarding foreign investors' problems with the judiciary, Babacan said the GOT could not change the system overnight. It could take time to "educate" and change the attitudes of the ensconced judicial establishment. Babacan said the Government intends to send more judges to training programs as a long-term means of reforming the judiciary.

Macro and Maastricht

5. (C) Although the GOT is reportedly on the verge of wrapping up the final details of its Letter of Intent, setting up an IMF board vote tentatively scheduled for December 9, Babacan declined to talk about the IMF program, saying "The Government has already proven itself on these issues." As he has repeatedly said in public, Babacan predicted that in 2006 Turkey will have met the debt-to-GDP Maastricht criteria and the budget deficit-to-GDP ratio. On both of these criteria, Turkey would be near the median of EU members.

Unemployment Stabilized at High Level

6. (C) With 500,000 to 700,000 entrants to the labor force each year, Babacan said Turkey has to create an equivalent number of new jobs to keep the unemployment rate from

increasing. He expects the year-end 2005 unemployment rate to be slightly below 10%. He said a State Statistics Institute study found that 45% of those currently unemployed had jobs a year earlier, suggesting many of the unemployed are in and out of the work force rather than being structurally unemployed. He also was encouraged that a million people moved from agricultural sector employment to other sectors, since ag sector employment tends to overstate the number of real jobs.

Very Little Extreme Poverty

17. (C) Babacan said the number of Turks living on less than a dollar a day is perhaps 60,000. A substantially larger group lives on \$2 a day or less, but this kind of extreme poverty is still a much lower percentage of the population than in Latin American countries. (According to a 2002 World Bank study 30% of the Turkish population lives on less than \$4.30/day). Babacan attributes this to extended family structures: "people don't let members of their family get in too bad a shape."

Comment

18. (C) Though we suspect the AKP government would happily remove many retrograde judges, it is politically impossible, given many secular Turks' suspicions of AK's intentions vis-a-vis the judiciary. Babacan's comments on economic issues are notable mainly for what he left out: any discussion of the IMF program status. It was as if he was saying he--and the GOT--have transcended IMF conditionality. This is undoubtedly posturing on Babacan's part, but it is striking that he would feel confident enough to take this line.

MCELDOWNEY